



DEPARTMENT OF VETERANS AFFAIRS
Regional Office
1240 East Ninth Street
Cleveland OH 44199

April 26, 2004

In Reply Refer To: 325/263
Information Letter 26-04-06

TO: All VA Loan Holders and Servicers

SUBJ: Hazard Insurance Coverage on VA Guaranteed Loans

1. Mortgage holders of VA guaranteed loans are reminded of their responsibility under 38 CFR §36.4326 regarding adequate hazard insurance coverage. This provision requires that holders maintain hazard insurance coverage on properties secured by VA guaranteed loans sufficient to protect the security against the risks or hazards to which it may be subject to in the locality. Further, adequate flood insurance is required on any building securing a loan at any time during the term of the loan that such security is located in an area identified by the Federal Emergency Management Agency as having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act, as amended.

2. All funds received under such policies covering payment of insured losses shall be applied to restoration of the security or to the loan balance. Holders should consult with VA in the event of a total or near total loss case before consenting to an insurance adjustment if it appears the settlement proceeds will not be sufficient to pay off the loan balance or restore the security.

3. Failure to maintain adequate hazard insurance coverage may result in the reduction or loss of any amount payable under the terms of the guaranty by operation of 38 CFR §36.4325(b)(3).

4. In addition to the regulations cited above, more information is available in the VA Servicing Guide, VA Handbook H26-94-1, Paragraph 1.09.

5. Thank you for your continuing participation in our VA Loan Guaranty program.

/s/

JAMES L. BRUBAKER, JR.
Loan Guaranty Officer